

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Lake Linden Housing Commission	County Houghton
Fiscal Year End December 31, 2005	Opinion Date July 11, 2006	Date Audit Report Submitted to State July 14, 2006	

We affirm that:

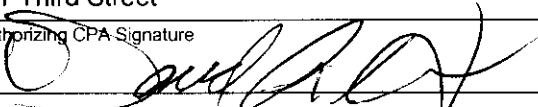
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None	
Other (Describe)	<input checked="" type="checkbox"/>	Agreed-Upon Procedures Report, Audit procedures Report	
Certified Public Accountant (Firm Name) David A. Heinonen, CPA, PC		Telephone Number (906) 337-2910	
Street Address 61 Third Street		City Laurium	State MI
Zip 49913			
Authorizing CPA Signature 		Printed Name David A. Heinonen	License Number 1101023766

LAKE LINDEN HOUSING COMMISSION
Lake Linden, Michigan

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December 31, 2005

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Independent Auditor's Report

Board of Commissioners
Lake Linden, MI 49945

We have audited the accompanying general-purpose financial statements of the Lake Linden Housing Commission, HUD Project Nos. MI-104001/002 as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Lake Linden Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Lake Linden Housing Commission as of December 31, 2005, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with **Government Auditing Standards**, we have also issued a report dated July 11, 2006 on our consideration of the Lake Linden Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with **Government Auditing Standards**, and should be read in conjunction with this report in considering the results of our audit.

As described in Note A to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, **Financial Statements and Management's Discussion and Analysis-For state and Local Governments** and Governmental Accounting standards Board Statement No. 37, an amendment of statement No. 34. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on Pages 4 through 7 is not a required part of the financial statements but is required by the Governmental Accounting standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Financial Data Schedule, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of Lake Linden Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.


David A. Heinonen, CPA, PC

Laurium, Michigan
July 11, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Lake Linden Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

The Commission's net assets for the year are \$2,103,360, an increase of 0.3% over the \$2,097,566 reported last year. The Commission had operating revenues of \$358,452 which is an increase of 26.4% from the operating revenues last year of \$283,646. The Commission also had capital projects fund revenues of \$97,079 and \$32,598 respectively. The Commission's operating expenses for the year were \$356,197, an increase of 8.3%, over those last year of \$328,939. In addition depreciation expense was \$81,952 and \$83,402 respectively. The actual results of operations for the Commission were within the final budgetary overall amounts for both the current and previous years.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues Expenses and Changes in Net Assets (on pages 8 and 10) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 8. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's net assets and changes in them. You can think of the Commission's net assets—the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, increases or decreases in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

Business-type activities—The Commission charges rent to tenants to help it cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 8. The financial statements provide detailed information on all of the Commission's activities. The Commission uses a proprietary fund to account for its activities. The method of accounting for proprietary funds is explained below.

Proprietary funds – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets

THE COMMISSION AS A WHOLE

The Commission's combined net assets at December 31, 2005 increased \$5,794, from December 31, 2004

Table 1 – Net Assets

	2005	2004
Assets:		
Current and other assets	\$ 253,098	\$ 217,616
Capital assets (net)	<u>1,881,001</u>	<u>1,906,296</u>
Total assets	<u>2,134,099</u>	<u>2,123,912</u>
Liabilities:		
Current and other liabilities	21,889	17,846
Other liabilities	<u>8,850</u>	<u>8,500</u>
Total liabilities	<u>30,739</u>	<u>26,346</u>
Net Assets:		
Investment in capital assets, net of related debt	1,881,001	1,906,296
Unrestricted net assets	<u>222,359</u>	<u>191,270</u>
Net Assets	\$2,103,360	\$2,097,566

Net assets of the Commission stood at \$2,103,360, versus \$2,097,566 last year. Unrestricted net business assets were \$222,359, and \$191,270 last year. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

Table 2 – Changes in Net Assets

Revenues	2005	2004
Program revenues:		
Charges for services	\$ 160,116	\$ 148,413
Program grants & subsidies	198,336	135,233
General revenues:		
Other income	0	0
Unrestricted investment		
Earnings	<u>3,539</u>	<u>3,259</u>
Total revenues	361,991	286,905
Program Expenses		
Operating expenses	356,197	328,939
Loss on sale of fixed assets	<u>0</u>	<u>3,723</u>
Total expenses	<u>356,197</u>	<u>332,662</u>
Increase (decrease) in net assets	5,794	(45,757)
Net assets – beginning of year	<u>2,097,566</u>	<u>2,143,323</u>
Net assets – end of year	\$2,130,360	\$2,097,566

BUSINESS-TYPE ACTIVITIES

Revenues for the Commission totaled \$361,991, and were \$286,905 last year. The Commission's average unit months leased on a monthly basis had increased slightly during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005, the Commission had \$1,143,759, last year it had \$3,297,314, invested in a variety of capital assets including land, equipment and building as follows:

Table 3 – Capital Assets at December 31, 2005 Business – Type Activity

	2005	2004
Land and improvements	\$ 296,355	\$ 296,355
Building and improvements	2,899,081	2,858,518
Equipment	152,486	142,441
Construction in progress	<u>0</u>	<u>0</u>
Total cost	3,347,922	3,297,314
Less accumulated depreciation	<u>(1,466,921)</u>	<u>(1,391,018)</u>
	\$ 1,881,001	\$ 1,906,296

BUDGET COMPARATIVES, ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Table 4 discusses the variance between the final budget and the actual results for 2005 and 2004.

Table 4 – Final Budget versus Actual Results – December 31, 2005 and 2004

	2005 Final Budget	2005 Actual	2005 Variance
Operating Subsidy - HUD	\$ 101,257	\$ 101,257	\$ 0
Program Revenues	<u>144,550</u>	<u>163,655</u>	<u>19,105</u>
	128,300	264,912	19,105
Administration	104,580	95,706	8,874
Tenant Services	1,500	1,014	486
Utilities	53,550	67,779	(14,229)
Maintenance	82,720	84,018	(1,298)
General	26,860	25,728	1,132
Non-Routine Expenditures	<u>4,000</u>	<u>0</u>	<u>4,000</u>
	273,210	274,245	(1,035)
	2004 Final Budget	2004 Actual	2004 Variance
Operating Subsidy - HUD	\$ 102,635	\$ 102,635	\$ 0
Program Revenues	<u>134,130</u>	<u>147,949</u>	<u>13,819</u>
	236,765	250,584	13,819
Administration	93,949	90,016	3,933
Tenant Services	1,500	1,368	132
Utilities	46,180	54,604	(8,424)
Maintenance	77,661	74,283	3,378
General	25,030	25,266	(236)
Non-Routine Expenditures	<u>4,000</u>	<u>0</u>	<u>4,000</u>
	248,320	245,537	2,783

The relatively large favorable variance currently of \$19,105 and \$13,819 in 2004 revenues is primarily due to an overall increase in occupancy and the rise in the per room rental rates

The unfavorable variance of \$1,035 in the 2005 expenses is primarily due to administrative, maintenance and non-routine expense items that were less than expected, the increase in utilities were essentially offset by expense reductions in all other areas. In 2004 the increase in utilities and general expenses were offset by lesser expenses in all other areas.

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2006 budget. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary costs and expense issues. These and other items were taken into consideration during the 2006 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Commission's Executive Director.

LAKE LINDEN HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-104001/002
STATEMENT OF NET ASSETS
December 31, 2005

CURRENT ASSETS

Cash and cash equivalents	\$	230,695
Accounts receivable - tenants		439
Prepaid expenses		13,114
Tenant deposits held in trust		8,850
Total Current Assets		<u>253,098</u>

NONCURRENT ASSETS

Capital Assets		3,347,922
Less accumulated depreciation		<u>(1,466,921)</u>
Net Capital Assets		<u>1,881,001</u>
Total Noncurrent Assets		<u>1,881,001</u>

TOTAL ASSETS

\$ 2,134,099

CURRENT LIABILITIES

Accounts payable	\$	2,436
Accrued liabilities		19,453
Tenant security deposits		8,850
Total Current Liabilities		<u>30,739</u>

NET ASSETS

Investment in capital assets, net of related debt		1,881,001
Unrestricted net assets		<u>222,359</u>

NET ASSETS

\$ 2,103,360

The accompanying notes to financial statements are an integral part of this statement.

LAKE LINDEN HOUSING COMMISSION
 -PROPRIETARY FUND
 HUD PROJECT NO MI-104001/002
 STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2005

PROGRAMS	Expenses	Program Revenue			Net Revenue and Change in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-Type Activities
BUSINESS-TYPE ACTIVITIES:					
Public Housing	\$ 356,197	\$ 160,116	\$ 101,257	\$ 97,079	\$ 2,255
General Revenues:					
Unrestricted investment earnings				\$	3,539
Other					0
Total general revenues					3,539
Change in net assets					5,794
Net assets, beginning of year					2,097,566
Net assets, end of year				\$	2,103,360

The accompanying notes to financial statements are an integral part of this statement.

LAKE LINDEN HOUSING COMMISSION
 -PROPRIETARY FUND
 HUD PROJECT NO MI-104001/002
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 For the Year ended December 31, 2005

OPERATING REVENUES

Tenant revenue	\$	160,116
Program grants - subsidies		<u>198,336</u>

Total Operating Revenues \$ 358,452

OPERATING EXPENSES

Administrative	\$	95,706
Tenant services		1,014
Utilities		67,779
Maintenance		84,018
General		25,728
Depreciation expense		<u>81,952</u>

Total Operating Expenses \$ 356,197

OPERATING INCOME \$ 2,255

OTHER INCOME

Interest income	\$	3,539
Proceeds on fixed asset sales		<u>0</u>

Total Other Income \$ 3,539

Change in Net Assets \$ 5,794

NET ASSETS - BEGINNING OF YEAR \$ 2,097,566

NET ASSETS - END OF YEAR \$ 2,103,360

The accompanying notes to financial statements are an integral part of this statement.

LAKE LINDEN HOUSING COMMISSION
 -PROPRIETARY FUND
 HUD PROJECT NO MI-104001/002
 STATEMENT OF CASH FLOWS
 For the Year ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$	159,728
Cash received from grants and subsidies		198,336
Cash payments to suppliers for goods and services		(124,302)
Cash payments for wages and related benefits		(137,558)
Payments in lieu of taxes		(8,116)
Other expenses		0
Net cash from operating activities	\$	88,088

CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	\$	(56,656)
Gain on sale of assets		0
Net cash used by capital and related financing activities	\$	(56,656)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	\$	3,539
Other		0
Net cash from investing activities	\$	3,539
Net increase in cash	\$	34,971

CASH AND EQUIVALENTS - BEGINNING OF YEAR \$ 195,724

CASH AND EQUIVALENTS - END OF YEAR \$ 230,695

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$	5,794
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		81,952
Interest income		(3,539)
Changes in assets and liabilities:		
Decrease (Increase) in receivables		(388)
Decrease (Increase) in prepaids		226
Decrease (Increase) in tenant deposits held in trust		(350)
Increase (Decrease) in accounts payable		1,632
Increase (Decrease) in accrued liabilities		2,411
Increase (Decrease) in tenant security deposits		350
Net cash from operating activities	\$	88,088

The accompanying notes to financial statements are an integral part of this statement.

LAKE LINDEN HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Lake Linden Housing Commission (Commission) was formed in 1974 under the criteria established for low-income housing programs by the United States Department of Housing and Urban Development. The commission operates under a board of commissioners appointed by the Lake Linden Village Council.

The Commission, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that the Lake Linden Housing Commission was not a component unit of any other governmental unit.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

During 2004, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary fund

Proprietary funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets are presented using the economic resource measurement focus as defined below.

The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changing in net assets, financial position and cash flows. All assets and liabilities, whether current or non-current, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

Cash and Equivalents - The Commission's cash and equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.

Receivables All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses - All prepaid expenses, such as insurance premiums, which are expected to be written off within the next fiscal year are included in net current assets.

Due to and Due From Other Funds Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which the transactions are executed.

Capital Assets Capital Assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building & improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$25 per item.

Compensated Absences - Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place. Compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expense and a corresponding liability.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets. Consists of capital assets, net of accumulated depreciation.
2. Unrestricted net assets. All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing or investing activities. Expenses are classified by operating and non-operating and are sub-classified by function such as salaries, supplies and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Inter-fund Activity:

As a general rule, the effect of the inter-fund activity has been eliminated from the government-wide statements.

The transfers of cash between the various Commission activities are reported separately from the revenues and expenses as operating transfer in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing activity.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on January 1st. The operating budget includes proposed expenses and the means of financing them. Prior to December 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31st.

LAKE LINDEN HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

NOTE B -- CASH AND INVESTMENTS

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available.

CASH AND EQUIVALENTS

Cash and equivalents consisted of:

Petty Cash	\$ 100
Cash and equivalents	<u>230,595</u>
TOTAL	\$230,695

The bank balances were fully insured at December 31, 2005. Cash and equivalents are categorized as follow:

Category 1 - Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commissions name.

	Category			Market	Bank
	1	2	3	Value	Balance
Petty Cash	\$ 100	\$ -	\$ -	\$ 100	\$ -
	<u>230,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,595</u>	<u>\$ 241,750</u>
	\$230,695	\$ -	\$ -	\$ 230,695	\$ 241,750

LAKE LINDEN HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

NOTE B – CASH AND INVESTMENTS (Continued)

STATUTORY AUTHORITY

Michigan law (Act 196 PA 1997) authorizes the Commission to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the authority to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an inter-local agreement under the urban cooperation's act of 1967, 1967 (Ex Sess) PA 7 MCL 123.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141. to 129.150.

Michigan law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

LAKE LINDEN HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

INVESTMENTS

Investments (if any) would be stated at market value.

Investments would normally consist of certificates of deposit and be in accordance with State of Michigan Statutes. Those statutes do not mandate that accounts be partially or fully insured or collateralized. Investments are categorized as follows:

- Category 1 Insured or registered, with securities held by the Commission or its agent in the Commission's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust dept.
- Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust dept or agent but not in the Commission's name.

There were no investments at December 31, 2005.

NOTE C - PENSION PLAN

The Lake Linden Housing Commission provides a Simplified Employee Pension Plan for eligible employees. The terms of the plan call for contributions of 8% of each employees annual compensation. Pension expense totaled \$5,500 for the year ended December 31, 2005.

NOTE D - FIXED ASSETS

A summary of Capital assets as of December 31, 2005 is as follows:

	Balance 01/01/2005	Additions	Deductions	Balance 12/31/2005
Land	\$ 296,355	\$ -----	\$ -----	\$ 296,355
Buildings	\$2,858,518	\$ 40,563	\$ -----	\$2,899,081
Equipment	\$ 142,441	\$ 16,094	\$ (6,049)	\$ 152,486
	\$3,297,314	\$ 56,657	\$ (6,049)	\$3,347,922
Accumulated Depreciation	(\$1,391,018)	(\$81,952)	\$ 6,049	(\$1,466,921)
Net Capital Assets	\$1,906,296	(\$25,295)	\$ -----	\$1,881,001

Depreciation expense for the year was \$81,952.

LAKE LINDEN HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

NOTE E – COMPENSATED ABSENCES

Pursuant to the requirements of the Governmental Accounting Standards Board Statement 16, the Commission accrues a liability for compensated absences which meet the following criteria:

1. The Commission's obligation related to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the Commission has calculated a liability for sick, personal and vacation leave which has been earned but not taken by Commission employees. The amount of \$1,983 is included in liabilities in accordance with FASB Statement 43.

NOTE F – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE G – USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE H – ECONOMIC DEPENDENCY

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended December 31, 2005 totaled \$358,452 of which \$198,336 or 55.3% was from HUD subsidies and grants.

SUPPLEMENTARY INFORMATION

LAKE LINDEN HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-104001/002
FINANCIAL DATA SCHEDULE
December 31, 2005

Line Item	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
ASSETS				
CURRENT ASSETS				
	Cash and cash equivalents			
1111.1	Cash - General Fund - unrestricted	230,595	-	230,595
1117	Petty cash	100	-	100
111	Total Cash and Equivalents	230,695	-	230,695
126	Accounts receivable	439		439
142	Miscellaneous prepaid expenses	13,114	-	13,114
114	Tenant deposits held in trust	8,850	-	8,850
150	Total Current Assets	253,098	-	253,098
PROPERTY AND EQUIPMENT				
161	Land	296,355	-	296,355
162	Building	2,899,081	-	2,899,081
163	Furniture, equipment, and machines-dwelling	117,214	-	117,214
164	Furniture, equipment, and machines-administrative	35,272	-	35,272
	Total Fixed Assets	3,347,922	-	3,347,922
166	Accumulated depreciation - structures and equipment	(1,466,921)	-	(1,466,921)
160	Net Fixed Assets	1,881,001	-	1,881,001
190	Total Assets	2,134,099	-	2,134,099
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
312	Accounts payable - vendors and contractors	2,436	-	2,436
	Accrued liabilities			
321	Payroll taxes	2,884	-	2,884
322	Deferred credits - other	1,983	-	1,983
333	Payments in lieu of taxes	7,750	-	7,750
345	Utilities and other	6,836	-	6,836
341	Tenant security deposits	8,850	-	8,850
310	Total Current Liabilities	30,739	-	30,739
EQUITY				
508.1	HUD PHA contributions	1,881,001	-	1,881,001
512.1	Undesignated fund balance/retained earnings	222,359	-	222,359
513	Total Equity	2,103,360	-	2,103,360
600	Total Liabilities and Equity	2,134,099	-	2,134,099

See notes to financial statements.

LAKE LINDEN HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-104001/002
FINANCIAL DATA SCHEDULE
December 31, 2005

Line Item	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
703	Dwelling rental	154,661	-	154,661
711	Investment income - unrestricted	3,539	-	3,539
706	Revenue HUD PHA operating grants	101,257	-	101,257
706.1	Revenue HUD PHA capital grants		97,079	97,079
716	Gain/(Loss) on sale of fixed assets	0	-	0
704	Tenant revenue - other	5,455	-	5,455
	Total Other Revenue	106,712	97,079	203,791
700	Total Revenue	264,912	97,079	361,991
EXPENSES				
911	Administrative wages	55,078	-	55,078
916	Accounting fees	5,140	-	5,140
916	Sundry-other administrative expense	9,456	-	9,456
915	Employee benefit contribution	24,032	-	24,032
912	Auditing fee	2,000	-	2,000
	Total Administrative Expenses	95,706	-	95,706
924	Tenant services - other	1,014	-	1,014
932	Electricity	19,752	-	19,752
931	Water	15,671	-	15,671
933	Gas	32,356	-	32,356
	Total Utilities Expense	67,779	-	67,779
941	Labor	44,357	-	44,357
942	Materials and other	7,213	-	7,213
943	Contract costs	16,922	-	16,922
945	Employee benefit contribution	15,526	-	15,526
	Total Ordinary Maintenance Expenses	84,018	-	84,018
971	Extraordinary maintenance	0	-	0
	Total Extraordinary Maintenance Expense	0	-	0

See notes to financial statements.

LAKE LINDEN HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-104001/002
FINANCIAL DATA SCHEDULE
December 31, 2005

Line Item	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
963	Payments in lieu of taxes	7,750	-	7,750
961	Insurance	17,978	-	17,978
	Total General Expenses	25,728	-	25,728
969	Total Operating Expenses	274,245	-	274,245
970	Excess Operating (Expenses) Revenue	(9,333)	97,079	87,746
974	Depreciation expenses	81,952	-	81,952
900	Total expenses	356,197	-	356,197
	Other Financing Sources (Uses)			
1001	Operating transfers in	97,079	-	97,079
1002	Operating transfers out	-	(97,079)	(97,079)
1010	Total Other Financing Sources (Uses)	97,079	(97,079)	-
1000	Excess of Total Revenues over Total Expenses	5,794	-	5,794

See notes to financial statements.

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Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

Board of Commissioners
Lake Linden, MI 49945

We have audited the financial statements of the Lake Linden Housing Commission, HUD Project Nos. MI-104001/002, as of and for the year ended December 31, 2005, and have issued our report thereon dated July 11, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lake Linden Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake Linden Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, board of directors, management, others with the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


David A. Heinonen CPA PC

Laurium, Michigan
July 11, 2006

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David A Heinonen CPA PC

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURE

Board of Commissioners
Lake Linden Housing Commission
Lake Linden, MI 49945

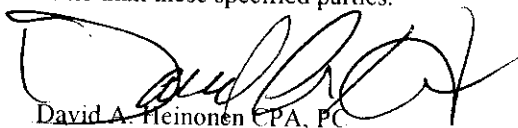
We have performed the procedure described in the second paragraph of this report, which was agreed to by the Lake Linden Housing Commission and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission of certain information agrees with the related hard copy documents. The Lake Linden Housing Commission is responsible for the accuracy and completeness of the electronic submission. The agreed-upon procedure engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submission of the items listed in the "UFRS Rule Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of the electronically submitted information and the hard copy document as shown in the attached chart.

We were engaged to perform an audit of financial statements of the Lake Linden Housing Commission as of and for the year ended December 31, 2005, and have issued our reports thereon dated July 11, 2006. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product of that audit. Further, our opinion on the fair presentation of the supplemental financial data templates dated July 11, 2006, was expressed in relation to the basic financial statements of the Lake Linden Housing Commission taken as a whole.

A copy of the financial statement package, which includes the auditor's reports, is available in its entirety from the Lake Linden Housing Commission. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of the Lake Linden Housing Commission and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by anyone other than these specified parties.



David A. Heinonen CPA, PC

Laurium, Michigan
July 11, 2006

Attachment to Independent Accountant's Report on Applying

Agreed-Upon Procedure

<u>UFRS Rule Information</u>	<u>Hard Copy Document(s)</u>	<u>Findings</u>
Balance Sheet, Revenue and Expense and Cash Flow Data (account numbers 1120 to 7100T and the S1200 Series)	Supplemental Schedules with Financial Statement Data	Agrees
Surplus Cash (S1300 series of accounts)	Computation of Surplus Cash, Distributions and Residual Receipts (Annual)	Agrees
Footnotes (S1300 series of accounts)	Notes to Financial Statements	Agrees
Type of Opinion on the Financial Statements and Compliance (account numbers S2100-020, S2300-020)	Auditor's Reports on the Financial Statements and Compliance	Agrees
Type of Opinion on Supplemental Data (account number S2100-100)	Auditor's Report on Supplemental Data	Agrees
Audit Findings Narrative (S2700 series of accounts)	Schedule of Findings and Questioned Costs	Agrees